

Short-stay outliers under § 412.529 are cases with a length of stay that is less than or equal to five-sixths the average length of stay of the LTC-DRG. The average adjusted charge reflects the average intensity of the health care services delivered by a particular LTCH and the average cost level of that LTCH. The resulting ratio is multiplied by that LTCH's case-mix index to determine the standardized charge for the case.

Multiplying by the LTCH's case-mix index accounts for the fact that the same relative charges are given greater weight in a LTCH with higher average costs than they would at a LTCH with low average costs which is needed to adjust each LTCH's relative charge value to reflect its case-mix relative to the average case-mix for all LTCHs. Because we standardize charges in this manner, we count charges for a Medicare patient at a LTCH with high average charges as less resource intensive than they would be at a LTCH with low average charges. For example, a \$10,000 charge for a case in a LTCH with an average adjusted charge of \$17,500 reflects a higher level of relative resource use than a \$10,000 charge for a case in a LTCH with the same case-mix, but an average adjusted charge of \$35,000. We believe that the adjusted charge of an individual case more accurately reflects actual resource use for an individual LTCH because the variation in charges due to systematic differences in the markup of charges among LTCHs is taken into account.

d. Low Volume LTC-DRGs. In order to account for LTC-DRGs with low volume (that is, with fewer than 25 LTCH cases), in accordance with the methodology we established in the

August 30, 2002 LTCH PPS final rule (67 FR 55985), we group those low volume LTC-DRGs into one of five categories (quintiles) based on average charges, for the purposes of determining relative weights. For this proposed rule, using LTCH cases from the December 2002 update of the FY 2002 MedPAR file, we identified 163 proposed LTC-DRGs that contained between 1 and 24 cases. This list of proposed LTC-DRGs was then divided into one of the five proposed low volume quintiles, each containing a minimum of 32 proposed LTC-DRGs ( $163/5 = 32$  with 3 proposed LTC-DRGs as the remainder). For FY 2004, we are proposing to make an assignment to a specific low volume quintile by sorting the 163 low volume proposed LTC-DRGs in ascending order by average charge. Since the number of proposed LTC-DRGs with less than 25 LTCH cases is not evenly divisible by five, the average charge of the low volume proposed LTC-DRG was used to determine which proposed low volume quintile received the additional proposed LTC-DRG. After sorting the 163 low volume proposed LTC-DRGs in ascending order, we are proposing that the first fifth (32) of low volume proposed LTC-DRGs with the lowest average charge would be grouped into Quintile 1. Since the average charge of the 33rd proposed LTC-DRG in the sorted list is closer to the previous proposed LTC-DRG's average charge (assigned to proposed Quintile 1) than to the average charge of the 34th proposed LTC-DRG on the sorted list (to be assigned to proposed Quintile 2), we are proposing to place it into proposed Quintile 1. The highest average charge

cases would then be grouped into proposed Quintile 5. This process would be repeated through the remaining low volume proposed LTC-DRGs so that 3 proposed low volume quintiles would contain 33 proposed LTC-DRGs and 2 proposed low volume quintiles would contain 32 proposed LTC-DRGs.

In order to determine the proposed relative weights for the proposed LTC-DRGs with low volume for FY 2004, in accordance with the methodology established in the August 30, 2002 LTCH PPS final rule (67 FR 55985), we would use the five proposed low volume quintiles described above. The proposed composition of each of the five low volume quintiles shown below in Table 1 would be used in determining the proposed LTC-DRG relative weights for FY 2004. We would determine a proposed relative weight and (geometric) average length of stay for each of the five proposed low volume quintiles using the formula that we are proposing to apply to the regular proposed LTC-DRGs (25 or more cases), as described below in section II.D.4. of this preamble. We are proposing to assign the same proposed relative weight and average length of stay to each of the proposed LTC-DRGs that make up that proposed low volume quintile. We note that as this system is dynamic, it is possible that the number and specific type of LTC-DRGs with a low volume of LTCH cases will vary in the future. We use the best available claims data in the MedPAR file to identify low volume LTC-DRGs and to calculate the relative weights based on our methodology.

TABLE 1.—PROPOSED COMPOSITION OF LOW VOLUME QUINTILES

Proposed LTC-DRG	Description
Proposed Quintile 1	
044 .....	ACUTE MAJOR EYE INFECTIONS
047 .....	OTHER DISORDERS OF THE EYE AGE >17 W/O CC
065 .....	DYSEQUILIBRIUM
066 .....	EPISTAXIS
069 .....	OTITIS MEDIA & URI AGE >17 W/O CC
072 .....	NASAL TRAUMA & DEFORMITY
128 .....	DEEP VEIN THROMBOPHLEBITIS
149 .....	MAJOR SMALL & LARGE BOWEL PROCEDURES W/O CC
178 .....	UNCOMPLICATED PEPTIC ULCER W/O CC
192 .....	PANCREAS, LIVER & SHUNT PROCEDURES W/O CC
262 .....	BREAST BIOPSY & LOCAL EXCISION FOR NON-MALIGNANCY
273 .....	MAJOR SKIN DISORDERS W/O CC
276 .....	NON-MALIGNANT BREAST DISORDERS
305 .....	KIDNEY, URETER & MAJOR BLADDER PROC FOR NON-NEOPL W/O CC
311 .....	TRANSURETHRAL PROCEDURES W/O CC
319 .....	KIDNEY & URINARY TRACT NEOPLASMS W/O CC
328 .....	URETHRAL STRICTURE AGE >17 W CC
339 .....	TESTES PROCEDURES, NON-MALIGNANCY AGE >17
342 .....	CIRCUMCISION AGE >17
348 .....	BENIGN PROSTATIC HYPERTROPHY W CC
349 .....	BENIGN PROSTATIC HYPERTROPHY W/O CC